

BILL # SB 1027

TITLE: ~~tax exemption; active duty pay~~
NOW: active duty pay; tax exemption

SPONSOR: Harper

STATUS: As Amended by Senate FIN

REQUESTED BY: Senate

PREPARED BY: Eric Jorgensen

FISCAL ANALYSIS

Description

The bill, as amended, would provide an individual tax exemption for military income earned by members of the armed forces while serving in active duty during tax year 2006.

Estimated Impact

The bill would, on a one time basis, reduce individual income tax revenues to the General Fund by \$(10.3) million in FY 2007.

Based on data from tax year 2002, the Arizona Department of Revenue estimates the cost at \$9.7 million.

Analysis

Under current law, members of the armed forces must pay Arizona income taxes if they are legal residents of this state, whether or not they are actually stationed here, unless they are serving in a combat zone. For military personnel, legal residency is established by voter registration, vehicle registration, or other similar identifiers. This bill would exempt the military income of active members of the United States' armed forces from the state income tax, from December 31, 2005 to December 31, 2006.

According to the Military Family Resource Center, of the U.S. Department of Defense, 17,621 active duty military personnel claimed Arizona as their state of legal residence in September 2004. The total annual salary base was \$411,354,800, with an average income of \$21,800. At this income level, an individual's income tax payment to the state would be about \$640. This figure represents an effective tax rate of approximately 2.95%, which is lower than the 3.5% average tax rate used by the JLBC Staff in some other analyses, since the average wage of military personnel is less than the average wage earned by the average Arizona taxpayer. When the effective tax rate is applied to the entire tax base, total Arizona income tax receipts equal \$12,135,000. This figure includes combat pay, which is currently exempt. While no exact public figures are available on the number of Arizona residents currently serving in combat zones, by assuming that 15% of active duty members are in combat zone, the total lost revenue equals \$(10,314,700).

Local Government Impact

Income tax collections are shared with Arizona cities through the Urban Revenue Sharing program. Under this program, the state distributes 15% of income tax revenues to the cities. Based on the state estimate, this bill would reduce the amount shared with the cities by \$(1,573,400). Because revenue sharing occurs 2 years after revenue collection, this cost would be realized in FY 2009.

2/11/05